CANRON INC.

Annual Report 1979

file

Contents:

Highlights

CANRON INC.

	(in millions of dollars — except per share amounts) 1979	1978	Increase (Decrease)
Sales			
First Quarter	**$ 90.2**	$ 89.9	0.3%
Second Quarter	**100.1**	87.5	14.4
Third Quarter	**141.3**	100.9	40.0
Fourth Quarter	**140.6**	122.1	15.2
Full Year	**$472.2**	$400.4	17.9%
Earnings			
First Quarter	**$ 1.8**	$ 1.7	5.9%
Second Quarter	**3.3**	2.7	22.2
Third Quarter	**2.8**	2.8	—
Fourth Quarter	**5.2**	4.2	23.8
Full Year	**$ 13.1**	$ 11.4	14.9%
% of Sales	**2.8%**	2.9%	(0.1%)
Order Backlog at year-end	**$247.0**	$215.5	14.6%
Working Capital	**$ 88.9**	$ 79.8	11.4%
Capital Expenditures	**$ 12.3**	$ 12.5	(1.6%)
Per common share			
Basic Earnings			
First Quarter	**$ 0.28**	$ 0.31	(9.7%)
Second Quarter	**0.57**	0.51	11.8
Third Quarter	**0.48**	0.48	—
Fourth Quarter	**0.93**	0.76	22.4
Full Year	**$ 2.26**	$ 2.06	9.7%
Dividends Paid	**$ 0.88**	$ 0.86	2.3%
Book Value	**$17.35**	$16.04	8.2%

Common share market information

1979	High	Low	Close	Shares Traded	Dividends Paid A shares Cash	Dividends Paid B shares Stock
First Quarter	13 15/16	13 3/16	13 5/8	371,726	$0.215	0.0157
Second Quarter	15	13 1/2	14 5/8	205,802	$0.215	0.0160
Third Quarter	15 3/4	13 1/4	14 1/2	150,705	$0.215	0.0155
Fourth Quarter	14 1/2	11 1/2	13	192,365	$0.230	0.0159
Full Year	15 3/4	11 1/2	13	920,598	$0.875	0.0631
1978	14 5/8	11	13 11/16	1,059,270	$0.860	0.0330

Directors' report to the shareholders

The world economic scene in 1979 was characterized by an unusually great amount of confusion and apprehension: rising oil prices, the concern about energy shortages, political change and uncertainty, the massive rise in metal prices, the difficulty or even possibility of holding inflation below double digit figures in North America and predictions of an imminent recession in the United States and Canada.

The general assessment of business conditions for Canron in 1979 made in last year's Annual Report, however, was very much as anticipated, although there were a few noteworthy exceptions.

Some sectors of the manufacturing industries in Canada and the United States were victims of the economic problems, but spending on capital goods showed continued strength and Canron's diversity of businesses brought a number of favourable opportunities.

Financial and operations

Sales of $472 million were a new high, 17.9 per cent over 1978. Net earnings increased 14.9 per cent to $13.1 million, continuing the recovery following the decline from the previous high levels of the mid-1970s. Earnings per common share, after providing for dividends on preferred shares were $2.26 compared to $2.06 per share in 1978 (adjusted to reflect the two for one stock split which became effective on September 13, 1979).

While the growth in net earnings was respectable, the financial results in three areas of operations were below expectations. Western Bridge and Mechanical divisions encountered difficulties as three major contracts produced substantial negative margins. The markets in eastern Canada for iron and concrete pressure water pipe were significantly below forecasts and profit margins suffered from intensive competition with unsatisfactory price levels. As a consequence pipe manufacturing facilities were frequently underutilized and the reorganization of the Pipe division which took place a year ago was not beneficial enough to offset these problems.

In Canada and the United States, recognizing the urgent needs of railway companies for more sophisticated and efficient track maintenance and rehabilitation equipment, Tamper division's research and development budget was substantially increased over previous years. While results for the division met corporate targets, the increased R and D expenditures reduced earnings below the record level of 1978.

All other operating divisions turned in very satisfactory results. Foundry, Plastics and Pacific Press exceeded the financial goal of a minimum of a 25 per cent return on average operating investment. Canrep showed substantial improvement and almost met the target. Eastern Structural, although operating in a difficult economic and competitive environment, had a relatively good year. Matisa division in Europe continued to strengthen its organization and improve profitability.

In a year of increasing interest rates, the management of operating investment received special attention. In some divisions the level of inventories was higher than normal, either to protect against material shortages or because of weak market conditions. As the year progressed this situation improved and further corrective action has been taken where needed in specific market areas.

Other matters which received increased emphasis by management were productivity improvements and personnel development. Canron has, in past years, relied heavily on recruitment from outside the corporation for a number of middle and senior management positions. In a decentralized organization it is possible that the capabilities and potential of competent future managers are overlooked.

Howard J. Lang, Chairman

Clifford S. Malone, President and Chief Executive Officer

Greater attention is being paid to identifying high potential employees and to creating opportunities for growth and progression to senior management responsibilities.

During the year an extensive analysis was made to ascertain the growth and profit potential of the Corporation's various businesses and product lines. There are very few product lines which might be classified as obsolete; however, some manufacturing facilities currently have excess capacity due to regional economic difficulties. Management efforts and allocation of capital are being directed to the businesses and products which have the greatest long-term profit and growth potential. At the same time the Corporation's policy is to divest itself of operations when it is determined that a satisfactory return on investment or positive cash flow will not be realized.

The Corporation's financial structure continued to improve with net short term debt decreasing from $23.7 million to $14.6 million at year end, while the long term debt/equity ratio improved from 23/77 to 20/80. As part of the strategy re-assessment, expenditures for plant and equipment were reduced from the year's budget of $16.2 Million to $12 million.

Co-incidental with the stock split, the quarterly dividend was increased in the third quarter, from 21.5¢ to 23¢ per share, equivalent to an annual payment of 92¢ per share. Since 1973 the quarterly dividend rate has been increased almost 100 per cent from 12.5¢ per share to the current 23¢ per share.

Government

The future growth and prosperity of the Canadian operations of Canron and other corporations who supply goods and services from coast to coast is directly related to the economies of all regions of Canada. A healthier business climate will result from the eventual resolution of the cultural and economic differences between regions and a strong federal system. Your Board sincerely hopes that good progress will be made in 1980 to strengthen the bonds of national unity in a spirit of mutual understanding and cooperation.

Directors and Management

S. Robert Blair, of Calgary, during the year tendered his resignation from the Board which was accepted with regret. He was a director for nine years and his wise counsel and deep interest in the affairs and future of the Corporation will be missed. We are pleased to advise that Donald A. Carlson was elected on February 26, 1980, to fill the vacancy on the Board and that William S. Cullens has agreed to join the Board and will be nominated for election at the Annual Meeting on April 30.

We also wish to express appreciation to two long time senior officers who retired at the end of 1979: Charles M. Thomson, Vice President, who was with Canron for 35 years and Murray D. Calder, former Controller, 27 years. Their long terms of service contributed significantly to the growth of the Corporation.

Pieter de Josselin de Jong was appointed Treasurer of the Corporation in August, 1979. Geoffrey Lindup recently joined the Canron organization as General Manager of Western Bridge division and Jacques Robert, General Manager of Canrep, assumed additional management responsibility for Plastics division.

The consolidation of the Corporation's executive offices in Toronto, referred to in last year's Annual Report, took place in July.

Outlook

Forecasts of economic activity in North America continue to vary from a recession to a year of modest growth. However, continued strength is predicted for many areas of capital spending. At the same time, the negative margins on the problem contracts which hurt 1979 results will not be repeated. The present outlook for Canron in 1980 is generally positive and financial results are expected to improve over 1979.

The Corporation entered 1980 with a backlog order position of $247 million of which $211 million is scheduled for completion within the year. While order backlog is not a reliable indicator of business conditions for all divisions, it is representative of the spending intentions for many projects involving new plants and capital equipment.

Business mix is of particular importance to the outlook for the Corporation because of its diversified activities. Continuing changes in operating strategy are necessary to temper the impact of business cycles. One area of weakness in 1980 will be the ongoing slack demand for pressure water pipe in eastern Canada. Extensive efforts are being made to offset this situation by increasing sales in export markets. With the strong demand for water pipe in western Canada the two Alberta plants should operate at capacity levels and some pipe will be shipped to the west from the eastern plants.

Prospects for the other divisions are generally favourable. The backlog of good contracts and opportunities for new work indicates reasonable prospects for the strutural steel fabricating and Mechanical divisions. Foundry, Plastics and Canrep should maintain their strong performance of 1979. In the United States both Tamper and Pacific Press divisions have good order positions and Matisa division in Europe has now achieved a more sound profit base.

With the commitment of all employees to achieve personal and corporate objectives which was evident last year, the Corporation expects 1980 to bring further profitable growth.

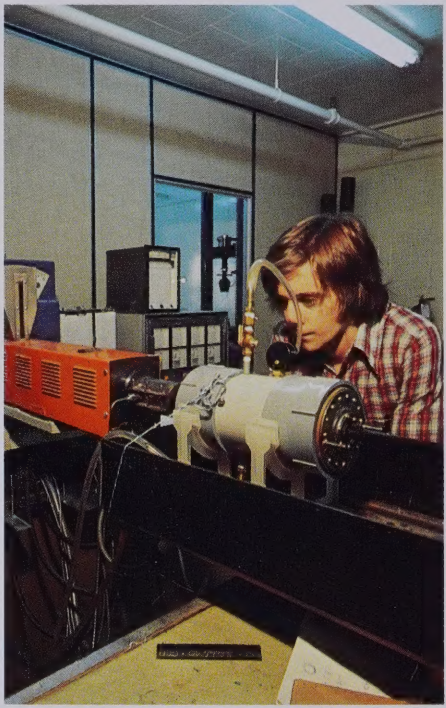
On behalf of the Board.

Howard J. Lang, Chairman

Clifford S. Malone,
President and Chief Executive Officer

Toronto, March 31, 1980

Operations



Pipe

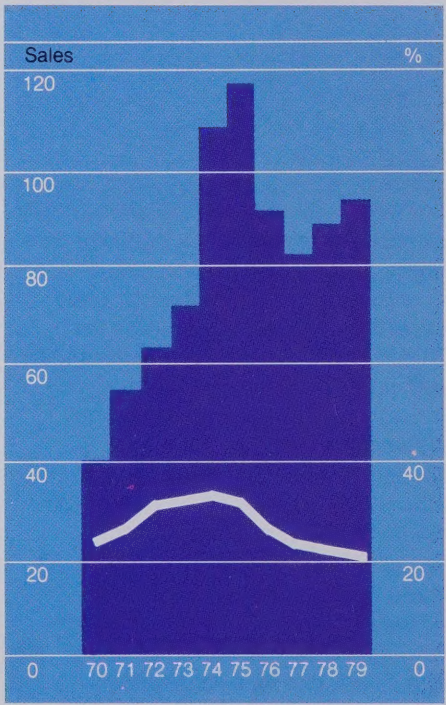
Reduced demand for Pipe products in 1979 resulted in an unsatisfactory profit performance for the division. Low levels of municipal spending for water distribution systems in central and eastern Canada caused significant underutilization of manufacturing facilities in the division's four pipe plants located in Quebec and Ontario.

However, sales and profits increased in western Canada, where a strong construction activity enabled the Alberta iron and concrete plants to operate at or near capacity.

International marketing activities were up, as substantial contracts were obtained in the Caribbean, including a salt water firefighting system in Trinidad.

The order backlog at the end of 1979 was down from 1978. Central and eastern Canadian markets are likely to be flat for at least the first half of 1980. A favourable Canadian dollar exchange rate enhances the division's international competitive position. Foreign orders already received indicate reasonable prospects in the export business for 1980.

Prospects for 1980 are uncertain but an increase in sales and improvement of profits are anticipated.



Pipe sales
(in millions of dollars)
Percentage of
total corporate sales

Plastics

Implementation of a cost reduction/profit improvement program, full utilization of plant capacity and stabilization in the industry all contributed to a good financial performance in 1979.

The rising price of oil and threatened shortages of key resins for production of plastic pipe and fittings resulted in significant increases in raw material costs. However, the market was more stable in 1979 and the cost increases were covered by higher selling prices.

Municipal sewer pipe was expanded to include 8, 10 and 12 inch sizes. This is a rapid growth area, and the division is committed to develop these lines in support of the strong market demand.

The current forecast for 1980 is favourable and the division expects to increase its sales volume, mainly in the municipal sewer pipe sector, and maintain a good profit level.

(Opposite page) A laboratory scale extruder is used as part of the quality control procedures at the Berthierville plant of the Plastics Division.

(Above) 10 inch PVC municipal sewer pipe from the Plastics Division is laid in the Markham area of Ontario.

(Above right) Canron ductile iron water pipe with a special fibre reinforced concrete protective coating is used for an underwater crossing of the Richelieu River near Beloeil, Quebec.

(Right) Canron Hyprescon high pressure water pipe is laid inside a moveable trench box that prevents cave-ins and protects the workmen.

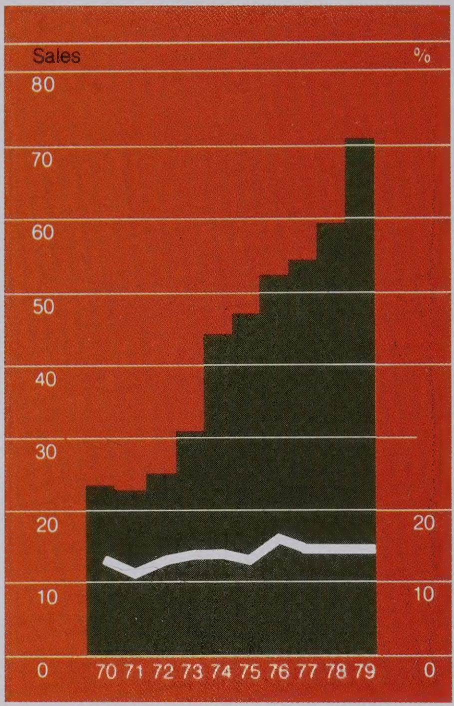
Foundry

Sales and profits for 1979 surpassed the previous highs and made 1979 a very successful year.

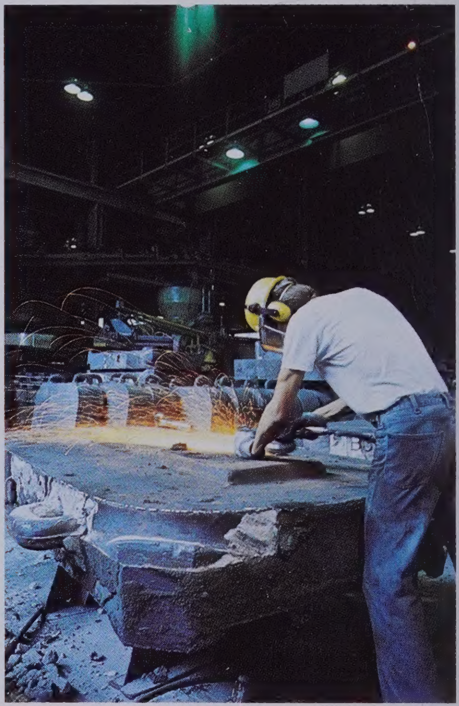
Strong demand from the steel, railway, paper, waterworks and forest industries resulted in high sales revenues. The division implemented plans for market diversification at Wabi, St. Thomas and Alloy Foundry.

The division is now capable of producing a range of alloys, including ductile iron. Contracts have been obtained with a number of original equipment manufacturers.

The outlook for 1980 is favourable and results should at least equal 1979.



Foundry sales
(in millions of dollars)
Percentage of
total corporate sales



(Above) Finish grinding of an ingot mould stool at the Foundry Division.

(Right) Two new 10 ton capacity electric induction furnaces installed at the Wabi Foundry in New Liskeard, Ontario, to replace the old cupola. The new furnaces eliminate pollution control problems associated with the cupola while offering cost savings and improved control of alloy chemistry.

(Right below) Forging moulds, produced at the ingot mould foundry in Hamilton, are prepared for shipment to a Texas steel mill.


28
280

Tamper
Equipment sales were lower than the previous year because of such factors as deferment of new rail lines in conjunction with coal projects in the U.S. midwest and uncertainty regarding government funds for railway maintenance and expansion.

However, these same conditions resulted in increased spending of operating funds, which improved parts sales and contracting.

Two of the new Rail Change Out (RCO) machines — introduced to the market with a first sale late in 1978 — were sold in 1979. Each of Canada's principal railways, Canadian National and Canadian Pacific, now have the RCO in operation. This machine, the first of its kind in the world, replaces rail and prepares ties for new rail at a rate of up to 2,000 feet an hour. The 221-foot-long machine weighs more than 170 tons and is operated by a crew of eight.

Product research and development was stepped up this year with a substantial increase in the expense which was charged to operations in 1979. Three important new machines were introduced in the market early in the fourth quarter — the Mark III truss tamper, JRM utility tamper, and BE-QR small ballast equalizer. The high level of R&D work on new products will continue throughout 1980.

Construction of the plant and engineering office additions was completed in May. The plant addition expanded production capacity by 20 per cent.

The outlook for 1980 is favourable in spite of the economic uncertainties in the United States. Both sales and profits are expected to show gains over 1979.

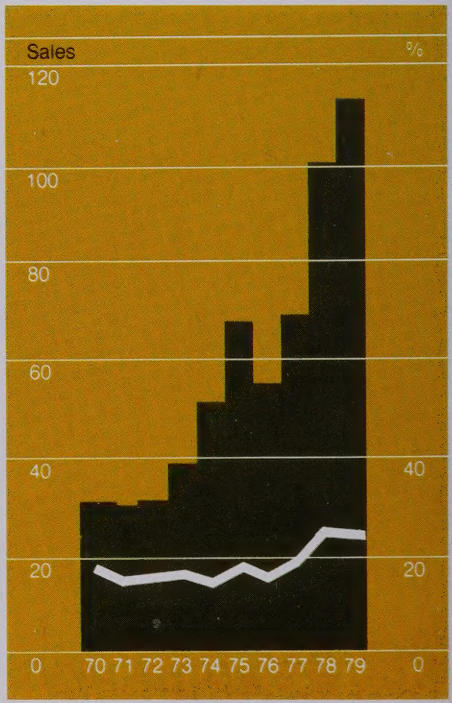
Matisa
Sales and operating profit exceeded the previous year as the upward trend reported in 1978 continued.

A tight delivery schedule on orders, notably to Japan and Eastern Bloc countries, kept plant operations at a steady, high level throughout the year. Plant production records were set in putting machines through the assembly lines.

Although heavy competition and unfavourable exchange rates continued to play their role, a more aggressive approach brought an improvement in market share in selected European countries. A new customer relations program, with emphasis on marketing along with a distinctive logo, was introduced. Major orders were received from Belgium, Sweden, Bulgaria and Japan.

The P811S, a new compact version of the P811 track renewal train has been field tested and demonstrated under worksite conditions. Positive reactions from prospective customers indicate a successful future for the P811S.

Customer interest in Matisa products, along with a high opening backlog, gives an encouraging start to 1980, which is expected to be another year of growth and consolidation.



Railway equipment sales (in millions of dollars)
Percentage of total corporate sales

(Top) The Tamper BE-QR ballast equalizer distributes and compacts loose ballast and sweeps the road bed clear with a rear mounted broom.
(Top right) The Matisa P811S track renewal train has been developed to operate in special conditions such as narrow gauge tracks, in tunnels and on bridges as well as on standard track.
(Right) The Tamper Mark III ES truss tamper is the latest development in the Tamper series of leveller liners.


P-811S


Tamper
MK III ES

Eastern Structural

Although sales were off slightly in 1979, the division's net operating profit was up over 1978.

A number of major projects were completed, including the Hoosick Street bridge in Albany, New York, and, in Canada, work on several General Motors plants in Ontario, Ontario Hydro's generating station at Thunder Bay, Procter & Gamble production facilities at Belleville, an installation for Dofasco in Hamilton, and enlargement of the Winnipeg Arena to meet National Hockey League requirements.

Overseas jobs were undertaken in Czechoslovakia and the Republic of Ireland, as well as gates for the vast Kpong hydro-electric complex on the Volta River in Ghana, a combined project with Mechanical Division.

Several multi-million-dollar contracts in Canada and the United States were awarded to the division, sustaining major activity well into 1980. Among them were additional work for General Motors in Windsor and St. Catharines, Ontario; for Texasgulf in Timmins, Ontario, and the construction of the "space mountain" and other structures at Canada's Wonderland, being built north of Toronto. A major contract was also received for additions and major renovations to a 16-storey office building in the heart of New York City.

Canron Construction Services Department had its most successful year since its establishment in 1975, with projects for Stelco's Nanticoke tar plant on Lake Erie, Denison uranium expansion at Elliot Lake, Ontario, and others across Canada.

Although market activity in eastern Canada is still depressed, signs of improvement are beginning to appear. The division is starting the year with a good backlog of work although the benefits of this will likely not be felt until 1981. Profits for 1980 may be slightly lower than the previous year on increased sales.

Western Bridge

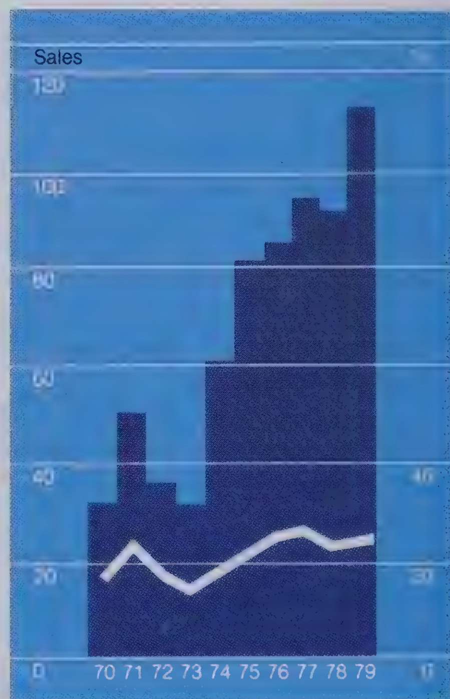
The value of contract closings for 1979 were just above the previous year but, as forecast, operating profit was considerably less. Losses on two large contracts completed in 1979 at the Tacoma, Washington, plant had a major negative impact on the division's overall results.

Total bookings for 1979 were over budget with additional work in the United States and an earlier than anticipated uptrend in the western Canadian market. Larger contracts received during the year were a bridge for Seattle, Washington (6,000 tons), structural steel for the Northwood pulp mill at Prince George, B.C. (7,000 tons), major repairs to the Canadian National Railways Second Narrows bridge across the Burrard Inlet in Vancouver, B.C., the Athabasca River bridge in northern Alberta and draft tube gates for British Columbia Hydro.

Major projects completed by the Vancouver and Tacoma plants during 1979 included the Boeing plant expansion in Everett, Washington (15,000 tons), the Battle River power plant in Alberta (6,700 tons), the Vancouver courthouse roof structure, an offshore oil drilling platform assembly for Chevron, and Kingpost Cranes for Lockheed shipbuilding.

The outlook appears to be excellent in western Canada for the next three years. British Columbia likely will be buoyant for two years because of expansions in the pulp and paper industry and mining. The Alberta market is again rising with construction of several new structural steel buildings slated for Calgary and Edmonton. The new tar sands projects, renewed activity in petro-chemical plants, and two new thermal generating plants will further strengthen the Alberta market.

While sales for 1980 may be slightly lower than the previous year, profits should show strong gains.



Structural sales
(in millions of dollars)
Percentage of
total corporate sales

(Above) Western Bridge has been awarded the contract to repair the Second Narrows railway bridge in Vancouver, badly damaged in 1979 when hit by a freighter.

(Above centre) Star Iron and Steel has supplied three Kingpost Cranes that are mounted amidships on U.S. Navy "AS" class submarine tenders.

(Above right) Western Bridge fabricated and erected 6,000 tons of structural steel for Alberta Power Limited's Battle River power station located 130 kilometres southeast of Edmonton, Alberta.

(Right) The Canron Eastern Structural Division fabricated and erected 14,000 tons of steel haunch girders for the 2/3 mile long Hoosick Street bridge over the Hudson River near Albany, New York.

Mechanical

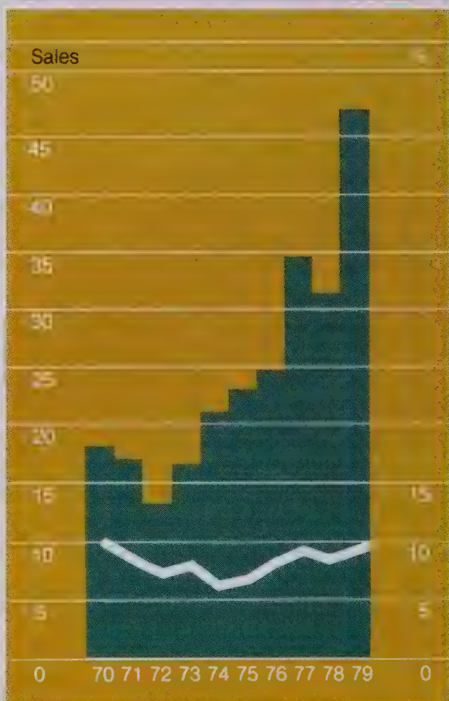
In 1979, sales increased while the operating profit remained even as a result of problems encountered on a major contract which incurred a loss.

Among metallurgical equipment supplied to the domestic market were replacement mold oscillating units to Stelco's Nanticoke project on Lake Erie, a 3-stand tube sizing mill to Algoma Steel at Sault Ste. Marie, and an aluminum foil mill revamp to Reynolds Aluminum at Cap de la Madelaine, Quebec. Export projects included 11 mill drives for Raritan River Steel Company at Perth Amboy, New Jersey, and 17 mill stands for North Star Steel Company at Monroe, Michigan.

The division supplied pulp washers to a number of Canadian mills, and bleach plant equipment which included an 80-foot-long stainless steel oxygen reactor shaft, the longest of its kind ever produced, to Kamyr Inc. Other contracts were pulp machine units for Ruzomberok, Czechoslovakia, and units for Kruger Paper in Quebec, Prince Albert Pulp Company in Saskatchewan, and Northwood Pulp Company in British Columbia.

The division was also engaged in hydraulic gate projects for the James Bay hydro-electric project in Quebec and the Kpong hydro-electric development in the Volta River in Ghana.

Prospects for 1980 are reasonably good. The order backlog is high and contract inquiries are increasing. The division does not anticipate operating problems of the type experienced in 1979. Consequently, profits are expected to improve over the 1979 results.



Machinery sales
(in millions of dollars)
Percentage of total corporate sales

Pacific

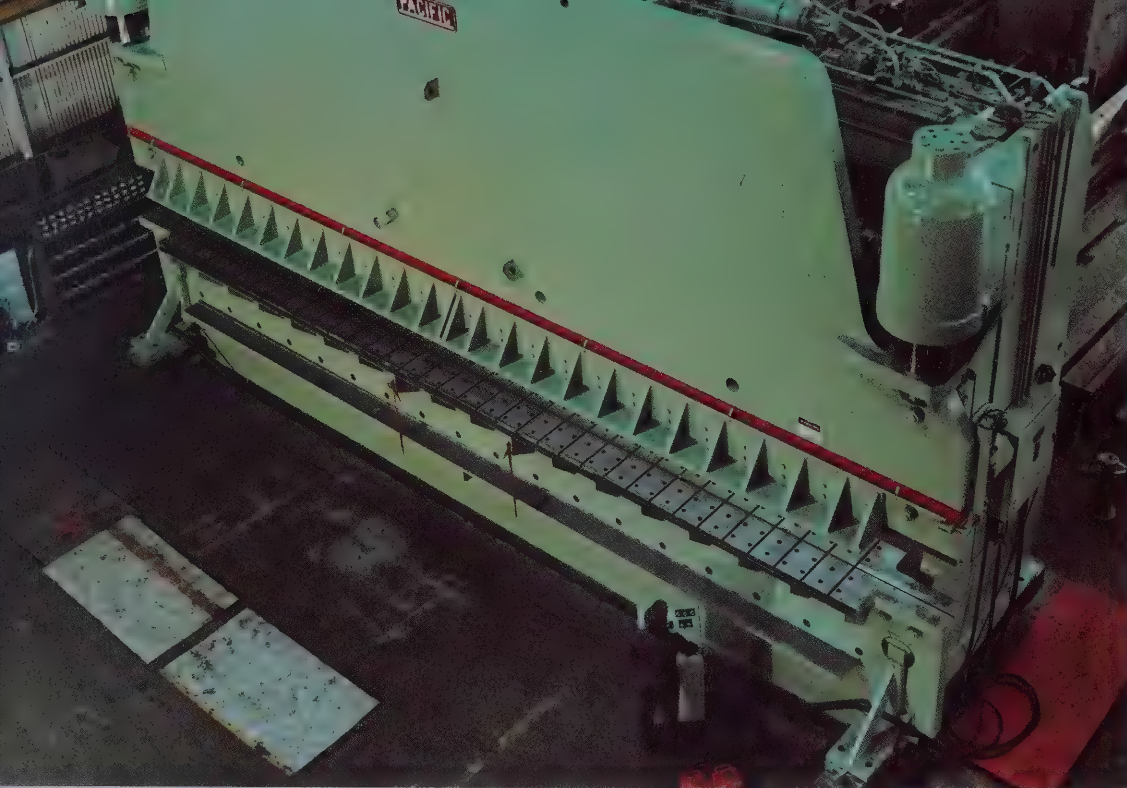
Generally unsettled economic conditions and high interest rates in 1979 had little effect on Pacific, and the division's sales exceeded both projections and the previous year.

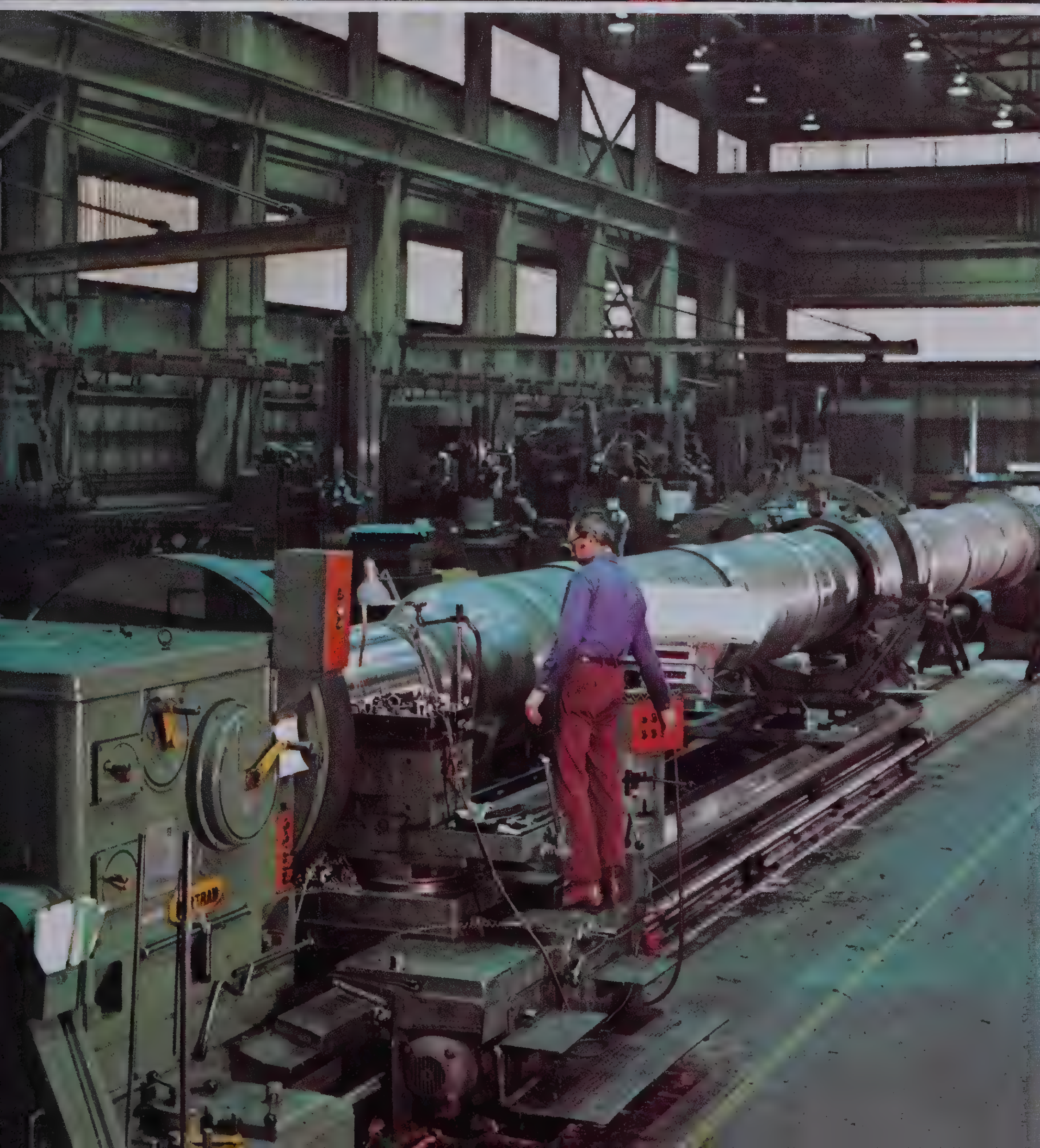
As in previous years, manufacturing facilities were again operating at capacity. Plans are underway for a further plant expansion.

Several major orders were completed during the year, including a 1,250 ton, 40-foot K-Series press brake delivered to Mitsubishi Heavy Industries in Japan and six large straightside presses to the Ariens Company in Wisconsin. Another order was for six press brakes for installation in a new container plant in China.SODEMECA, Pacific's licensee in Belgium, received an order for seven machines for a new plant in the United Kingdom.

Since its introduction one and a half years ago, Pacific's new product line of open back stationery (OBS) single cylinder presses has shown excellent growth. In 1979, sales exceeded expectations by 10 per cent.

1980 sales are expected to exceed last year and profits should at least equal the record set in 1979. Pacific entered 1980 with a substantial backlog, which provides good insurance for the year's results.





(Opposite Page) A welder in the Mechanical Division works on the end wall of a 13 foot diameter, 30 foot long stainless steel pulp washer.

(Above left) This 1,250 ton capacity 40 foot Pacific hydraulic press was built for Mitsubishi and shipped to Japan where it is being used to form aircraft fuselage sections.

(Above) These Pacific 750 ton straightside presses form lawn mower and riding tractor frames and components.

(Left) At the Mechanical Division Trois – Rivières plant a 72 inch diameter by 30 foot capacity lathe was adapted to handle the machining of this 80 foot long stainless steel oxygen reactor shaft. The shaft was fabricated by the division from individual 8 foot stainless steel lengths.

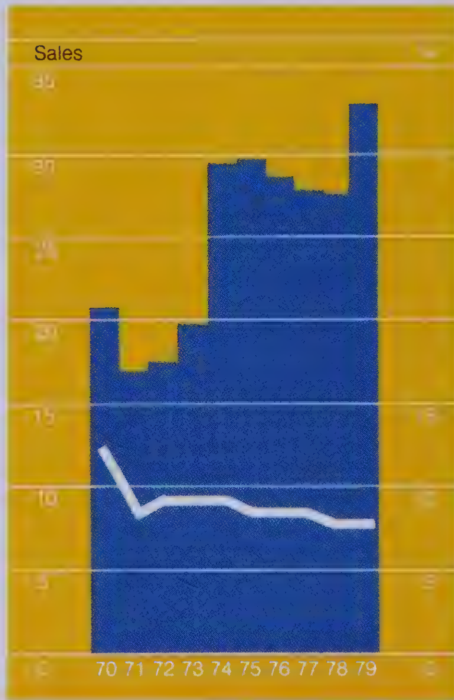
Canrep

Profits rose above budgeted levels as sales increased in 1979.

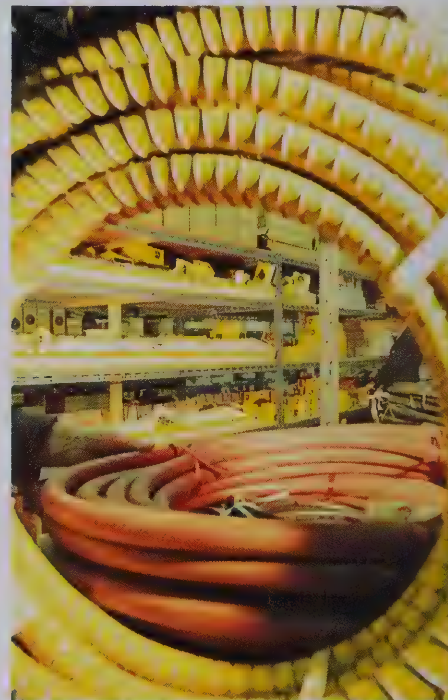
Several factors contributed to this performance. Among them were improvement in customer service through higher inventory and stock availability, an increase in the number of salesmen and the opening of a new branch in Chicoutimi, Quebec. Bus Duct Division increased sales by 150 per cent over 1978, and sales of railway, transit and aerospace products continued to be strong.

New product lines, including a major lift truck line — Fenwick — were added, and these are expected to contribute to good growth for Canrep in 1980 and beyond. Product lines that were successful in certain regions, including hydraulic tubing, hose fittings and air tools, were expanded to all regions.

Prospects for 1980 are very strong. The division closed off 1979 with a high backlog and expectations of considerable sales growth in general industrial product lines all across the country. By the end of 1980, the Lift Truck Division operations are expected to be fully established across Canada, with a good market share gained in central Canada.



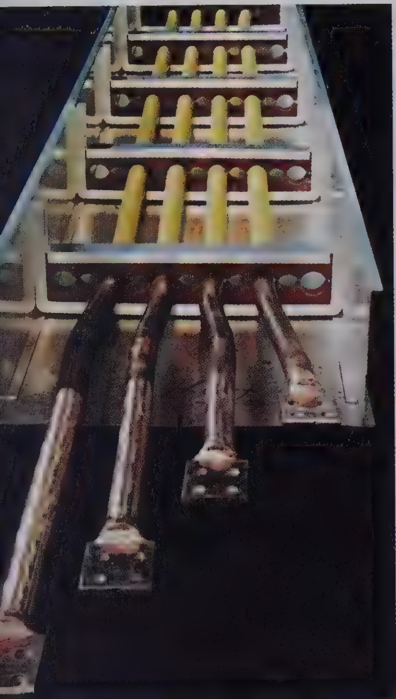
Distribution sales
(in millions of dollars)
Percentage of total corporate sales



(Above and below right) Canrep warehouses across Canada provide a wide assortment of industrial supplies to Canadian industry.

(Above centre) This section of water cooled 3000 amp bus duct is part of an order for cable bus and water cooled bus supplying power to two induction furnaces at a major car manufacturer. It was produced by the Bus Duct Division of Canrep.

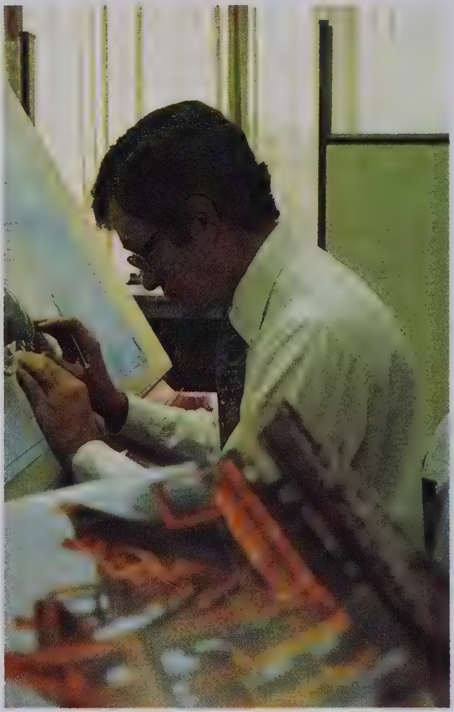
(Above right) Canrep has become the exculsive Canadian distributor of the full line of Fenwick lift trucks. The French manufactured trucks provide Canrep with a complete range of materials handling equipment from small hand operated units to 10 ton capacity heavy duty trucks.




FENWICK
FENWICK


GRAY
LENOX

Personnel



Canron ended the '70s with the adoption of a management development programme which will provide employees with the opportunity to accept increased responsibilities and improve their managerial effectiveness.

An initial selection of 40 employees by Divisional General Managers have started on a development programme by which they, as individuals, can learn, grow and improve their abilities to perform professional management tasks. This programme will lead in the '80s to a sound identification of organizational and individual needs integrated with a planned effort to generate learning to help the company meet the challenges of the future.

Nine collective labour agreements were negotiated in 1979, all for two year periods. These were all reached without any work interruption except for the Rexdale Plastics plant where a four week stoppage occurred. Wage rates followed the pattern set in 1978 and the majority included a cost of living formula. In 1980, 24 collective agreements are scheduled for negotiation.

Communication of Canron's comprehensive group benefit programme was upgraded and employees are now better informed through new publications and employee meetings. New and improved administration procedures assure employees of fast and efficient processing of their claims.

The Tamper Division in Columbia, South Carolina, was presented with the Employer Of The Year Award by the Columbia Mayor's Committee on Employment of the Handicapped for their successful efforts in hiring handicapped people and the involvement of division employees in community work.

The Foundry Division received the St. John Ambulance "Priory Vote Of Thanks" award in recognition of outstanding participation and support in the St. John Industrial Safety Programme. This is just one example of the corporation's and employees' efforts to establish a work environment conducive to the health and safety of employees.

Effective January 1, 1980, Canron increased the retirement income of all retired employees for the third time in five years.

There were four new awards in 1979 under the company's Howard J. Lang Scholarship Programme; three in Canada and one in the U.S.

Financial review

Summary

Financial markets throughout the world in 1979 reflected the many uncertainties created by political upheavals, world-wide energy problems, currency fluctuations and an overriding concern for increasing rates of inflation. All these things together contributed to minimal or even negative economic growth in many of the industrialized and developing nations.

In spite of all the apparent problems, Canron managed to improve its operating results in a year-over-year comparison. The gains were not restricted to Canadian operations, as the Corporation's U.S. and Swiss based businesses also showed gains.

The financial position of the Corporation continued strong, and capital requirements were satisfied through internally generated funds.

OPERATING RESULTS

	(millions) 1979	1978
Sales	**$472.2**	**$400.4**

The increase in sales of $71.8 million or 17.9% came about through higher volume — about $34.3 million, and $37.5 million in price increases mainly as a result of continuing high rates of inflation in nearly all the Corporation's markets. Currency fluctuations (higher exchange rates) and the corresponding translation for non-Canadian operations were responsible for about $7.1 million of the total increase in sales. The 1979 weighted average exchange rates for currencies key to the Corporation were US$.85/CAN$1.00 (1978 – US$.88/CAN$1.00) and Sfrs. 1.39/CAN$1.00 (1978 – Sfrs. 1.54/CAN$1.00).

1979 sales for each of the product segments and the increases over the previous year were as follows:

	(millions of dollars) Sales	Increase
Foundry	71.0	11.2
Pipe	93.0	4.9
Machinery	47.2	15.5
Railway	114.0	13.7
Structural steel	114.0	21.2
Distribution	33.0	5.3
	472.2	71.8

The substantial increase in machinery sales came largely from completion of a major Canadian contract which commenced in 1978 but was closed in 1979. U.S. machinery products achieved further gains in sales, bringing their result to a new record high in both volume and amount.

General strength of industrial activity in North American for 1979 was reflected in the sales for both Foundry and Distribution.

The U.S. and Swiss based operations generated $140.1 million sales in 1979, up 13.6% over the previous year. Export sales from Canada were $46.9 million in 1979 compared with $10.2 million in 1978.

Additional data on sales by segment is included with the operating review on pages 4 to 15. The division of Canadian and foreign sales for the 10 years 1970-1979 is provided with the charts on page 18.

The order backlog at the end of 1979 was $247 million — an increase over the previous year of $31.5 million.

	(millions) 1979		1978	
Sales	$472.2		$400.4	
Cost of sales	397.8		335.3	
Gross margin	**$ 74.4**	**15.8%**	**$ 65.1**	**16.3%**

The decline in the margin percentage was attributable mostly to losses on three major contracts of Western Bridge and Mechanical divisions. These contracts added significantly to sales, but were a negative factor on the over-all margin for the Corporation. Margins on most construction related work were generally lower as a consequence of the depressed market conditions which have prevailed over the past 2-3 years for this segment of the Canadian economy.

All other divisions maintained or improved their margin rates which, coupled with increases in sales, brought about the $9.3 million gain in the gross margin amount. Threatened shortages of plastic resins tended to stabilize prices in 1979 of Plastic division products, and this had a positive effect on its business segment.

The combination of strong demand and more timely pricing action to cover rising costs provided a modest improvement in margins on U.S. machine tool sales.

	(millions) 1979		1978	
Selling and administration expense	**$46.4**	**9.8%**	**$39.5**	**9.9%**

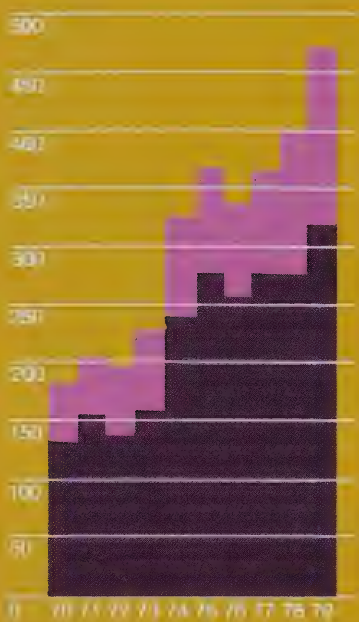
The increase of $6.9 million in selling and administration expense represented a rise of 17.5 per cent. This increase was slightly less than the growth in sales during 1979, i.e. 17.9 per cent resulting in the very modest reduction of the expense to sales rate from 9.9 per cent to 9.8 per cent. Approximately $1.0 million of the increase over the prior year came from currency translation of non-Canadian operations.

	1979	1978
Interest	**$5.4**	**$4.8**

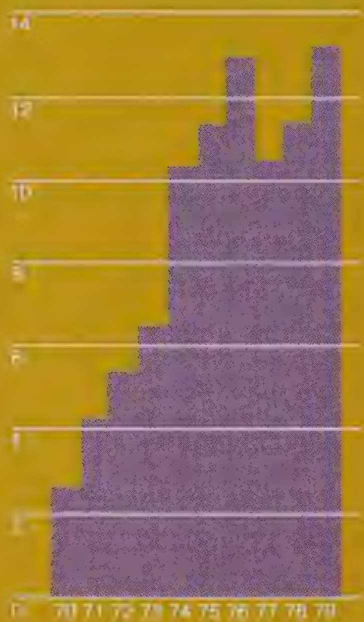
Higher short-term interest rates accounted for the $600,000 increase in interest costs. As a consequence the effective interest rate for 1979 was 9.7 per cent compared with 8.8 per cent the previous year.

Short-term bank prime lending rates in both Canada and the United States moved up at least four times

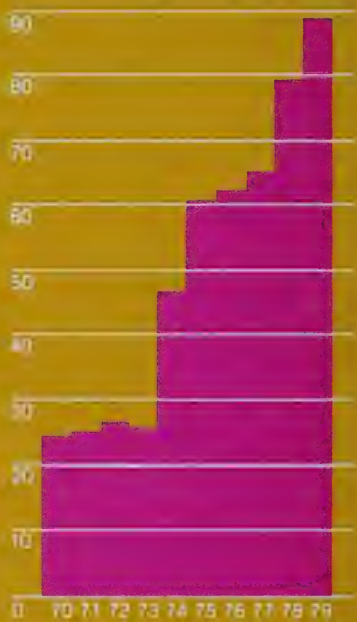
Sales
(in millions of dollars)
Foreign operations
Canadian operations



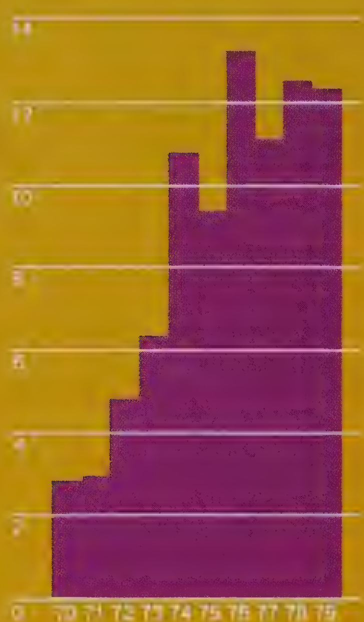
Net earnings
(in millions of dollars)



Working capital
(in millions of dollars)



Capital expenditures
(in millions of dollars)



Earnings per share
Dividends per share

during the year with the increases adding 3.0 and 3.25 percentage points in Canada and the U.S. to end the year at 15 per cent in both countries.

	(millions)	
	1979	1978
Net earnings before tax	$22.6	$20.8
Income tax	**$ 9.5 42%**	**$ 9.4 45%**

The 3 percentage points reduction in the effective rate to 42 per cent was due to variations in the source by country of the Corporation's earnings. A portion of the current change reflects the U.S. corporate tax rate reduction from 48 per cent to 46 per cent effective at the beginning of 1979.

	1979	1978
Sales	$ 472.2	$ 400.4
Net earnings	**$13.1 2.8%**	**$11.4 2.9%**

While net earnings increased by $1.7 million over the previous year, the rate of return in relation to sales was off very slightly compared with 1978 — 2.8 per cent vs 2.9 per cent.

The continuing high rates of inflation in North America made it exceedingly difficult to progress towards the Corporation's target rate of a minimum of 4 per cent earnings on the sales dollar.

Earnings per common share

	(dollars)	
	1979	1978
Basic	$2.26	$2.06
Fully diluted	$2.23	$2.02

Note: The common share capital was subdivided on a 2 for 1 basis effective September 13, 1979. All per share data prior to this date has been restated to maintain comparability.

The gain in earnings per share (basic) this year was 9.7 per cent as a consequence of the higher earnings. This was less than the 14.9 per cent rate of interest for net earnings. The difference in these rates was accounted for by the fact that preferred share dividends deducted from 1979 net earnings were double the corresponding amount for 1978.

Return on common share equity for 1979 was 12.9 per cent compared with 12.8 per cent for 1978.

Conversions during the year of the 1974 Series preferred shares to common shares have reduced the outstanding number of convertible preferred shares to such an extent that the dilution factor is now inconsequential — 1.33 per cent.

FINANCIAL CONDITION

	(millions)	
	1979	1978
Working capital	**$88.9**	**$79.8**

The working capital ratio for 1979 was virtually unchanged from the previous year, 1.75:1 vs 1.77:1. This ratio has been maintained for the past five years.

The three key elements of working capital, i.e. accounts receivable, inventories and accounts payable, increased in total only $3.0 million in 1979, or under 3 per cent, in spite of the nearly 18% increase in sales.

The 1979 ratios to sales for receivables and inventories improved over 1978 with lower days outstanding for receivables (62 days vs 67) and higher inventory turnover (4.3X compared with 3.8X). These improvements reflect operating management's efforts to "manage" their assets more effectively.

Working capital requirements continued to be financed through internally generated funds and short-term bank lines of credit. The maximum amount of bank credits in use at any time during 1979 was 48 per cent of the total credit available to the Corporation. Net short-term borrowing (bank advances less short-term investments) was $16.0 million at the end of 1979 — a decrease of $6.2 million from the previous year end.

The 1979 year-end exchange rates were
US$.855/CAN$1.00
(1978 –US$.844/CAN$1.00) and
Sfrs. 1.35/CAN$1.00
(1978 – Sfrs.1.36/CAN$1.00).

	(millions)	
	1979	1978
Capital expenditures	**$12.3**	**$12.5**
Depreciation	**$ 8.3**	**$ 7.8**

About 50 per cent of the 1979 capital expenditures were made by the U.S. divisions mainly Tamper. This division again expanded production and technical office facilities at their Columbia, South Carolina, location. A substantial amount was also spent on Tamper manufactured track maintenance equipment for their contracting operations in the U.S.

Capital spending by all divisions was focused on production efficiencies in an effort to control costs. A number of major machine tools were acquired.

	1979	1978
Deferred income tax	**$14.7**	**$8.2**

The increase of $6.5 million resulted mainly from accelerated depreciation for tax purposes on fixed asset additions. The initial depreciation on certain fixed assets acquired in previous years was deliberately deferred for tax purposes; it will be taken together with depreciation on 1979 additions to fixed assets for the 1979 tax year.

	1979	1978
Long-term debt	**$27.5**	**$29.6**

No new long-term debt has been added since 1975. This form of financing is

Distribution of sales dollar	1979	1978
Cost of sales	**84.2¢**	83.7¢
Selling & administrative expense	**9.8¢**	9.9¢
Interest expense	**1.2¢**	1.2¢
Income taxes	**2.0¢**	2.3¢
Earnings	**2.8¢**	2.9¢
Dividends	**1.3¢**	1.3¢
Retained Earnings	**1.5¢**	1.6¢
	2.8¢	2.9¢

currently at record high rates in both Canada and the United States.

Debt repayment in 1979 totalled $2.1 million including open market purchases of $1.7 million of the Corporation's sinking fund debentures at attractive yields through interest savings and purchase discounts. The debenture purchases covered the balance of 1979, all of 1980 and most of the 1981 sinking fund requirements.

The debt portion of the Corporation's capitalization again decreased (fifth successive year). The 1979 debt/equity ratio was 20:80 (1978 ratio 23:77).

Shareholders' equity

	1979	1978
Preferred	**$15.7**	**$16.5**
Common	**92.5**	**84.4**
	$108.2	**$100.9**

Continued conversion of the 1974 Issue preferred shares to common shares accounts for the modest reduction of the preferred equity.

The book value of each common share increased $1.32 to $17.35 as at December 31, 1979.

Canron common shares traded in 1979 on the Toronto and Montreal stock exchanges totalled 921,000 shares. This volume is 13.1 per cent lower than 1978 and 37.1 per cent below the record volume traded in 1976.

The Corporation's 'A' and 'B' common shares were split 2 for 1 effective September 13, 1979 following approval of shareholders at a special general meeting August 29, 1979. All common share data in the annual report has been restated to reflect the split. The action to split the stock was taken in the belief that the resulting adjustment of price would increase the marketability of the shares and broaden the distribution. There was a 28 per cent increase in shares traded in the quarter following the split compared with the immediately preceding quarter. It is still too early to determine if the split will be effective in achieving these objectives.

The number of common share holders of record at the end of 1979 was 3,670 compared with 3,793 the previous year. About 65 per cent of the common shares were held by institutions (insurance and trust companies, banks and other financial institutions). The comparable percentage for 1978 was 67 per cent.

(dollars per share)	1979	1978
Common share dividends	**$0.875**	**$0.86**

The common share dividend payment was increased in the fourth quarter of 1979, bringing the total dividend paid for the year to $0.875 per share (1978 was $0.86). The 1979 dividend payout was 39 per cent of net earnings for the year and was consistent with the Corporation's dividend objective of paying 35-40 per cent of average net earnings.

A total of 6,907 'B' shares were issued in 1979 to the 113 shareholders who selected the stock dividend option instead of receiving the normal cash dividend.

The 1979 dividend yield on the common share was 7.08 per cent based on the closing market price for Canron shares. The corresponding yield for the Toronto Stock Exchange composite equity portfolio was 3.99 per cent.

Consolidated statement of earnings

Year ended December 31, 1979		(thousands of dollars) 1979	1978
Sales (note 1)		**472,196**	400,408
Costs and expenses			
	Cost of sales	**397,784**	335,315
	Selling and administrative	**46,437**	39,502
	Interest	**5,363**	4,838
	Income taxes	**9,497**	9,339
Net earnings		**13,115**	11,414
Earnings per common share			
	Net earnings	**13,115**	11,414
	Less: Preferred share dividends	**1,159**	673
	Net earnings available to common shares	**11,956**	10,741
	Average number of common shares outstanding	**5,300,853**	5,222,314
	Earnings per common share — basic	**$2.26**	$2.06
	Earnings per common share — fully diluted	**$2.23**	$2.02

Consolidated statement of retained earnings

Year ended December 31, 1979		(thousands of dollars) 1979	1978
Balance — beginning of year		**72,313**	65,967
	Net earnings	**13,115**	11,414
		85,428	77,381
	Dividends (note 5) —		
	Preferred shares		
	1974 Issue	**55**	115
	Series 'A'	**1,104**	458
	Common shares		
	Class 'A'	**4,610**	4,459
	Class 'B'	**118**	36
		5,887	5,068
Balance — end of year		**79,541**	72,313

Consolidated statement of financial position

Year ended December 31, 1979		(thousands of dollars)	
		1979	1978
Current assets			
	Cash	**1,404**	1,002
	Short-term investments	**14,429**	2,497
	Accounts receivable	**80,791**	73,736
	Inventories (note 2)	**109,747**	105,129
	Prepaid expenses	**1,642**	1,678
		208,013	184,042
Current liabilities			
	Bank advances and notes payable	**30,457**	24,683
	Accounts payable	**73,269**	64,596
	Dividends	**1,237**	1,154
	Income taxes — current	**6,153**	—
	— deferred	**7,300**	13,122
	Long-term debt — current portion (note 4)	**682**	712
		119,098	104,267
Working Capital		**88,915**	79,775
Fixed and other assets			
	Land, buildings and equipment (note 3)	**61,019**	57,498
	Accounts receivable — long-term	**105**	881
	Other	**409**	508
		61,533	58,887
Capital employed		**150,448**	138,662
Represented By:			
Deferred income taxes		**14,732**	8,217
Long-term debt (note 4)		**27,520**	29,573
Shareholders' equity			
	Preferred shares (note 5)	**15,725**	16,437
	Common shares (note 5)	**12,930**	12,122
	Retained earnings	**79,541**	72,313
		108,196	100,872
		150,448	138,662

Signed on behalf of the Board

H. J. Lang, Director

C. S. Malone, Director

Consolidated statement of changes in working capital

Year ended December 31, 1979		(thousands of dollars)	
		1979	1978
Source of working capital			
	Net earnings	**13,115**	11,414
	Depreciation and amortization	**8,383**	8,094
	Deferred income taxes	**6,515**	(578)
	Provided from operations	**28,013**	18,930
	Fixed asset disposals	**506**	465
	Preferred shares Series 'A' issue	**—**	15,000
	Accounts receivable long-term — decrease	**776**	199
		29,295	34,594
Use of working capital			
	Working capital — increase	**9,140**	15,391
	Fixed asset additions	**12,311**	12,497
	Long-term debt repayment	**2,053**	1,658
	Dividends	**5,791**	5,048
		29,295	34,594

Changes in elements of working capital

		1979	1978
Current assets — increase (decrease)			
	Cash	**402**	(2,190)
	Short-term investments	**11,932**	1,856
	Accounts receivable	**7,055**	6,189
	Inventories	**4,618**	29,721
	Prepaid expenses	**(36)**	362
		23,971	35,938
Current liabilities — increase (decrease)			
	Bank advances and notes payable	**5,774**	(2,033)
	Accounts payable and dividends	**8,756**	14,166
	Income taxes — current	**6,153**	(519)
	— deferred	**(5,822)**	8,680
	Long-term debt — current portion	**(30)**	253
		14,831	20,547
Increase in working capital		**9,140**	15,391

Auditors' report to the shareholders

We have examined the consolidated statement of financial position of Canron Inc. as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1979 and the results of its operations and the changes in its working capital for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered accountants
Toronto, Ontario
February 13, 1980

Summary of accounting policies

Year ended December 31, 1979

Consolidation	The consolidated financial statements include the accounts of all subsidiaries. All inter-corporate balances and transactions are eliminated.
Revenue recognition	Revenue is recorded when goods are shipped, services are provided and construction contracts are completed.
Income taxes	Income taxes are based on earnings reported in the consolidated financial statements. Timing differences for payment of taxes result from deferments of earnings on contracts in progress, as well as from tax incentives such as accelerated depreciation. Taxes arising from these differences are accounted for as deferred income taxes, and are classified as current or non-current liabilities, depending on the nature of the asset which gives rise to the timing difference. These timing differences do not reduce the amount of taxes ultimately payable.
Inventory valuation	Inventories are valued at the lower of cost and market. Costs are determined on a first-in, first-out (FIFO) basis. Manufactured inventories include costs for materials, labour and factory overhead. Costs incurred to date on uncompleted contracts are classified as work-in-progress. Progress billings on contracts are deducted from work-in-progress.
Fixed Assets	Land, buildings and equipment are recorded at cost. Depreciation is based on the estimated useful life for each major classification of assets, calculated principally on the diminishing balance method. The annual rate of depreciation range from 2.5% for some buildings to 30% for automotive and mobile construction equipment. Maintenance, repairs and minor replacements are expensed as incurred. Improvements which significantly increase the useful life of assets are capitalized.
Foreign currency translation	Net working capital of all non-Canadian operations is translated to Canadian dollars at exchange rates in effect at year-end. All other assets and liabilities of all non-Canadian operations are translated at historical exchange rates. Sales and expenses of these operations are translated at weighted average exchange rates for the year. On translation of the accounts of non-Canadian operations, any net unrealized gain is deferred and any net unrealized loss is expensed.

Notes to consolidated financial statements

Year ended December 31, 1979

1. Classes of business

Based on the products and operations of the Corporation, the classes of business have been determined by the Directors as follows:

	Sales (thousands of dollars) 1979	1978
Foundry	**71,030**	59,851
Pipe	**93,018**	88,069
Machinery	**47,164**	31,667
Railway	**114,015**	100,352
Structural Steel	**113,964**	92,809
Distribution	**33,005**	27,660
	472,196	400,408

2. Inventories

	(thousands of dollars) 1979	1978
Work-in-progress	**108,938**	102,653
Less: Progress billings	**77,829**	60,371
	31,109	42,282
Raw materials	**45,825**	39,918
Finished goods	**32,813**	22,929
	109,747	105,129

3. Fixed assets

	(thousands of dollars) 1979			1978
	Cost	**Accumulated depreciation**	**Net**	Net
Land	**4,204**	**—**	**4,204**	4,204
Buildings	**40,287**	**20,288**	**19,999**	19,221
Equipment	**104,154**	**67,338**	**36,816**	34,073
	148,645	**87,626**	**61,019**	57,498
Depreciation expense			**8,284**	7,804

4. Long-term debt

	(thousands of dollars) 1979	1978
Canron Inc.		
6-3/4% Sinking Fund Debentures, series 'D' due May 15, 1987	**8,215**	9,000
Annual sinking fund — $800,000 May 15, 1980 to 1986		
9-1/4% Sinking Fund Debentures, series 'E' due April 1, 1994	**13,230**	14,187
Annual sinking fund — $650,000 April 1, 1980 to 1986; $850,000 April 1, 1987 to 1993		
Matisa Materiel Industriel S.A.		
5-1/2% Sinking Fund Debentures (payable in Swiss Francs) due September 15, 1983	**1,097**	1,097
Annual sinking fund — S.Frs. 200,000 December 15, 1980 to 1982		
8-1/2% Debentures due October 15, 1986 (payable in Swiss Francs)	**1,500**	1,500
Canron Southern Inc.		
8-1/2% to 8-7/8% Debentures due in annual instalments to 1994 (payable in U.S. dollars)	**2,493**	2,700
Mortgages — 4% to 9-1/2% due at various dates to 1990		
Canron Inc.	**232**	274
Matisa Materiel Industriel S.A. (payable in Swiss Francs)	**1,435**	1,527
	28,202	30,285
Less: current portion	**682**	712
	27,520	29,573

Payments for the next five years, in accordance with the terms of the debentures and mortgages (assuming the December 31, 1979 exchange rate for 1980 and historical rates for the remainder), are as follows:

	(thousands of dollars)
1980	**682**
1981	**1,685**
1982	**1,861**
1983	**2,620**
1984	**1,785**

Long-term debt interest expense for 1979 totalled $2,917,000 (1978 — $2,868,000).

5. Capital stock

	(thousands of dollars) 1979	1978
(a) Preferred shares		
Authorized —		
Unlimited number of Preferred shares, issuable in series, without par value		
Outstanding and fully paid —		
7,245 $6.00 cumulative Convertible Redeemable First Preferred shares, 1974 issue	**725**	1,437
600,000 Series 'A' Floating Rate Cumulative Redeemable Retractable Preferred shares	**15,000**	15,000
	15,725	16,437

Each First Preferred share, 1974 Issue, is convertible until April 1, 1984 at the option of the holder into eight fully paid Class 'A' or Class 'B' common shares. A total of 7,125 shares were converted in 1979 (11,027 in 1978). The shares are redeemable any time at the option of the Corporation at $106 per share; however, a retirement fund which must be commenced in 1985 provides for their redemption at $103 per share.

The Series 'A' Preferred shares are entitled to cumulative dividends at a rate equal to the sum of one half of the Canadian bank prime lending rate and one and one quarter percent applied on $25 per share. Each share is redeemable at the option of the Corporation at $25. No shares may be redeemed prior to April 21, 1981 unless the dividend formula is altered. The Corporation must offer to purchase 120,000 shares in 1986, 120,000 in 1987 and all outstanding shares in 1988.

(b) Common shares
Effective September 13, 1979 each of the Class 'A' and Class 'B' Common shares were subdivided into two Class 'A' and Class 'B' shares, respectively. All amounts pertaining to numbers of these shares have been restated.

	(thousands of dollars)	
	1979	1978
Authorized —		
Unlimited number of Class 'A' and Class 'B' Common shares without par value		
Outstanding and fully paid —		
5,165,968 Class 'A' Common shares	**12,445**	11,938
163,735 Class 'B' Common shares	**485**	184
	12,930	12,122

The Class 'A' and 'B' Common shares are interconvertible, with the same rights, privileges, restrictions and conditions, except that dividends on Class 'B' shares may be paid in Class 'B' shares instead of cash.

	Number of Common shares	
	Class 'A'	Class 'B'
Outstanding — January 1, 1979	5,191,420	74,376
Changes during the year —		
— Conversion of First Preferred shares, 1974 Issue	57,000	—
— Interconversion of 'A' and 'B' — net	(82,452)	82,452
— Stock dividends (equivalent market value 1979 — $96,103; 1978 — $20,391)	—	6,907
Outstanding — December 31, 1979	5,165,968	163,735

A further 2,887 Class 'B' Common shares (market value $37,710) were declared as a stock dividend in November, 1979 to be issued in January, 1980.

6. Pension plans

An unfunded past service pension liability estimated at $5,826,405 existed at December 31, 1979 (1978 — $6,100,000). This liability and interest thereon is being funded by the following equal annual instalments which will be charged to operations when paid:

	$
1980 – 1990	642,497
1991 – 1992	640,903
1993	136,525
1994	80,559
1995 – 1997	40,395

7. Research and development

Expenditures for product research and development expensed in 1979 totalled $2,643,600 (1978 — $1,730,500)

Ten year review

	1979	1978	1977	1976	1975
	(in millions of dollars – except per share amounts*)				
Annual Amounts					
Sales	**$472.2**	400.4	363.1	338.5	366.0
Cost of sales	**$397.8**	335.3	302.5	273.5	301.0
Selling and administrative expenses	**$ 46.4**	39.5	34.6	33.5	32.3
Interest	**$ 5.4**	4.8	4.9	4.4	8.0
Income taxes	**$ 9.5**	9.4	10.7	14.1	11.1
Earnings (before extraordinary item)	**$ 13.1**	11.4	10.4	13.0	13.6
As percentage of sales	**2.8%**	2.9%	2.9%	3.8%	3.7%
Extraordinary item	—	—	—	—	(2.3)
Net earnings	**$ 13.1**	11.4	10.4	13.0	11.3
Earnings per common share					
Earnings (before extraordinary item)	**$ 2.26**	2.06	1.98	2.53	2.66
Extraordinary item	**—**	—	—	—	(0.45)
Dividend paid per common share	**$ 0.88**	0.86	0.86	0.80	0.65
Capital expenditures	**$ 12.3**	12.5	11.2	13.3	9.4
Depreciation	**$ 8.3**	7.8	7.2	6.6	6.5
Return on common shareholders' equity	**12.9%**	12.8%	13.2%	18.1%	18.2%
Return on capital employed	**8.7%**	8.2%	8.7%	11.4%	10.7%
Year-end position					
Current assets					
Short-term investments	**$ 14.4**	2.5	0.6	19.0	
Accounts receivable	**$ 80.8**	73.7	67.6	63.8	67.0
Inventories	**$109.8**	105.1	75.4	60.9	68.9
Other	**$ 3.0**	2.7	4.5	1.9	1.6
Total	**$208.0**	184.0	148.1	145.6	137.5
Current liabilities					
Bank advances and notes payable	**$ 30.5**	24.6	26.7	26.5	20.8
Accounts payable and accrued liabilities	**$ 73.3**	64.6	50.4	50.0	44.3
Other	**$ 15.3**	15.0	6.6	7.3	11.9
Total	**$119.1**	104.2	83.7	83.8	77.0
Working capital	**$ 88.9**	79.8	64.4	61.8	60.5
Current ratio	**1.8**	1.8	1.8	1.7	1.8
Land, buildings and equipment – net	**$ 61.0**	57.5	53.2	49.7	42.0
Other assets	**$ 0.5**	1.4	1.9	1.9	3.2
Capital employed	**$150.4**	138.7	119.5	113.4	105.7
Deferred income taxes	**$ 14.7**	8.2	8.8	6.1	5.2
Long-term debt	**$ 27.5**	29.6	31.2	33.0	34.5
Shareholders' equity					
Preferred	**$ 15.7**	16.5	2.5	4.2	5.6
Common	**$ 92.5**	84.4	77.0	70.1	60.4
Total	**$108.2**	100.9	79.5	74.3	66.0
Book value per common share	**$ 17.35**	16.03	14.87	13.78	12.08
Number of common shareholders	**3,670**	3,793	4,031	4,220	4,055
Common shares outstanding	**5,329,703**	5,265,796	5,176,068	5,086,748	5,001,388
Number of employees	**5,632**	5,723	5,557	5,823	6,285
Backlog of orders	**$247.0**	215.5	171.4	206.1	192.6

*All per share amounts have been restated to reflect the 2 for 1 stock split effective September 13, 1979.

	1974	1973	1972	1971	1970
Annual amounts					
Sales	325.7	223.8	199.4	205.2	176.7
Cost of sales	270.2	186.8	167.1	175.5	150.5
Selling and administrative expenses	27.5	21.8	19.6	18.5	16.7
Interest	7.8	4.1	3.3	3.8	4.7
Income taxes	9.0	4.6	4.0	3.2	2.1
Earnings (before extraordinary item)	11.2	6.5	5.4	4.2	2.7
As percentage of sales	3.4%	2.9%	2.7%	2.1%	1.5%
Extraordinary item	(0.9)	—	—	—	(0.2)
Net earnings	10.3	6.5	5.4	4.2	2.5
Earnings per common share					
Earnings (before extraordinary item)	2.20	1.30	1.07	0.83	0.53
Extraordinary item	(0.18)	—	(0.01)	—	(0.04)
Dividend paid per common share	0.60	0.50	0.50	0.50	0.50
Capital expenditures	10.9	6.3	4.8	2.9	2.8
Depreciation	5.6	4.8	4.5	4.4	4.1
Return on common shareholders' equity	19.1%	14.1%	12.6%	10.6%	6.5%
Return on capital employed	10.8%	9.4%	7.8%	6.2%	3.7%
Year-end position					
Current assets					
Short-term investments					
Accounts receivable	76.5	49.1	42.5	38.5	38.5
Inventories	80.5	50.0	36.9	37.6	42.4
Other	2.2	2.1	1.7	2.1	1.6
Total	159.2	101.2	81.1	78.2	82.5
Current liabilities					
Bank advances and notes payable	51.4	34.8	20.1	19.8	23.1
Accounts payable and accrued liabilities	51.5	32.7	26.1	26.6	28.8
Other	9.4	8.7	9.1	7.3	6.8
Total	112.3	76.2	55.3	53.7	58.7
Working capital	46.9	25.0	25.8	24.5	23.8
Current ratio	1.4	1.3	1.5	1.5	1.4
Land, buildings and equipment – net	44.3	39.8	37.1	39.5	41.0
Other assets	4.1	5.0	5.3	4.3	4.5
Capital employed	95.3	69.8	68.2	68.3	69.3
Deferred income taxes	4.4	3.9	3.4	2.8	2.5
Long-term debt	32.2	18.4	21.2	24.6	27.4
Shareholders' equity					
Preferred	6.0	1.6	1.7	1.8	1.9
Common	52.7	45.9	41.9	39.1	37.5
Total	58.7	47.5	43.6	40.9	39.4
Book value per common share	10.58	9.22	8.42	7.86	7.53
Number of common shareholders	4,044	4,141	4,301	4,687	4,847
Common shares outstanding	4,980,308	4,979,244	4,979,244	4,979,244	4,979,244
Number of employees	7,649	6,573	5,655	6,114	6,655
Backlog of orders	217.3	131.2	71.6	68.6	88.1

Facilities, products & services

Eastern Structural Norman Dickinson, General Manager Main Office; 100 Disco Road Rexdale, Ontario M9W 1M1 Tel. (416) 675-6400	Offices: Montreal, Que.; Rexdale, Ont. Plants: Montreal, Que.; Rexdale, Ont.	Structural Steel fabrication and erection for buildings and bridges Construction Services Steel Joists Fabrication and erection of water and vapour conservation tanks Fabrication, erection and repairs of A.S.M.E. vessels Microwave Structures Transmission Poles and Towers Hydraulic Gates Bulk Loading Terminals	Container Cranes Gantry Cranes Conveyor Systems Shipping Containers Galvanizing Warehouse Steel
Western Bridge Geoffrey Lindup, General Manager Main Office: 145 West First Avenue Vancouver, B.C. V5Y 1A2 Tel. (604) 874-2311	Offices: Vancouver, B.C.; Tacoma, Wash. Plants: Vancouver, B.C., Tacoma Wash.		
Mechanical Norman Dickinson, General Manager Main Office: 100 Disco Road Rexdale, Ontario M9W 1M1 Tel. (416) 675-7440	Offices: Ville d'Anjou, Que., Rexdale, Ont., Vancouver, B.C. Plant: Trois-Rivières, Que.	Pulp and Paper Machinery Steel Mill Equipment Rolling Mill Machinery Pipeline Valves Bulk Handling Equipment Cranes and Hoisting Machinery	Hydraulic Gates Gear Drives Special Purpose Machinery Custom Fabrication and Platework Contract machining
Plastics Jacques P. Robert, General Manager Main Office: 9200 blvd. de l'Acadie Montreal, Quebec H4N 2T2 Tel. (514) 381-9331	Offices: Montreal, Que.; Rexdale, Ont.; Saint John, N.B. Plants: Berthierville, St. Jacques, Que.; Rexdale, Ont.; Saint John, N.B.	Plastic Pipe and Fittings Water — Polyethylene, PVC and CPVC Waste — Drain, Waste and Vent (ABS) Sewers (ABS and PVC)	Electrical — Underground Duct (PVC) Rigid Conduit (PVC) Farm drainage — Corrugated Pipe
Foundry John M. Gandy, General Manager Main Office: 3050 Harvester Road Burlington, Ontario L7N 3K7 Tel. (416) 681-1221	Offices: Burlington, New Liskeard, Ont. Plants: Hamilton (2), St. Thomas, New Liskeard, Ont.	Ingot Moulds and Stools Brakeshoes Municipal Castings Mill Liners	Various Grey, Ductile and Alloy Iron Castings Mine Cars, Cages and Skips Heat and Abrasion Resistant Steel
Pacific Eugene W. Pearson, President Main Office: 421 Pendleton Way Oakland, California 94621 Tel. (415) 635-7900	Offices: Mt. Carmel, Ill.; Oakland, California Plant: Mt. Carmel, Ill.	Hydraulic Press Brakes Hydraulic Shears Hydraulic Straightside Presses Hydraulic Pressformers Hydraulic OBS Presses	Dies Automatic Gauging Equipment Special Hydraulic Equipment Hydraulic Control Valves Northrup Stretch-Form Equipment

Tamper Arnold F. Bygate, General Manager Main Office: 2401 Edmund Road West Columbia, S.C. 29169 Tel. (803) 794-9160	Offices: W. Columbia, S.C.; Toronto, Ont.; Lachine, Que.; Melbourne, Australia Plants: W. Columbia, S.C.: Toronto, Ont.; Melbourne, Australia	Tamping Equipment — Manual, Semi Automatic Fully Automatic Production Tampers Switch Tampers Spot Tampers Track Equipment— Track Renewal Trains Car Movers Rail Laying Machines Rail Renewal Systems Automatic Spike Drivers Track Recording Cars Brush Cutters, Snow Blowers Rail Gauging machines Rail Lubricators Track Gauges and Levels	Ballasting Equipment — Ballast Cleaners, Regulators Compactors, Switch and Track Undercutters Power Tools — Tie Renewers, Rail Saws Tie Drills, Spike Pullers and Drivers, Rail Bolters Drills, Grinders
Matisa Ragnar Blomqwist, General Manager Main Office: Arc-en-Ciel 2, Crissier, Switzerland Tel. (021) 34.94.34	Offices: Crissier, Switzerland; Bielefeld, West Germany; Palomba, Italy; Paris, France; Madrid, Spain; Bedford, England; Tokyo, Japan Plants: Crissier, Renens, Switzerland; Palomba, Italy; Madrid, Spain; Sens, France		
Pipe Guy F. Talbot, General Manager Main Office: 101 Queensway W. Mississauga, Ontario L5B 2P7 Tel. (416) 276-7311	Offices: Dartmouth, N.S.; Ville d'Anjou, Montreal, Quebec City, Que.; Ottawa, Toronto, Mississauga, Ont.; Winnipeg, Man.; Calgary, Alta.;Vancouver, B.C. Plants: Ville d'Anjou, Trois-Rivières, Que.; Toronto, Rexdale, Ont.; Calgary, Cochrane, Alta.	Ductile Iron Pipe Concrete Pressure Pipe Wear Resisant Pipe Fittings Hydrants	
Canrep André Thompson, General Manager Main Office: 3745 St. James St. Montreal, Quebec H4C 1H4 Tel. (514) 933-6741	Offices: New Glasgow, Halifax, N.S.; Moncton, N.B.; Montreal, Chicoutimi, Que.; Toronto, Hamilton, Sault Ste. Marie, Ont.; Winnipeg, Man.; Edmonton, Calgary, Alta., Vancouver, B.C. Warehouses: New Glasgow, N.S.; Montreal, Chicoutimi, Que.; Toronto, Hamilton, Ont.; Winnipeg, Man.; Edmonton, Alta.; Vancouver, B.C.	Rail, Truck, Bus and Aviation Products Electrical Bus Duct Instruments and Electronic Products Hydraulic and Pneumatic Components and Systems Vibration Absorbers Lift Trucks — hoisting and miscellaneous machinery	Pipleine and Process Valves — supply and repair Air Moving and Conditioning Equipment Filtration Products Insulation Products Mining Equipment Maintenance, Repair and Operating supplies

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Consultant
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Montreal

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formerly President and Chief Executive Officer, Canadian Pacific Air Lines, Limited, Vancouver

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Charles Perrault
President, Perconsult Ltd., Montreal

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President and Chief Executive Officer, Dominion Foundries and Steel, Limited, Hamilton

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C. S. Malone

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Assistant Secretary

William D. McQuitty
Assistant Secretary

*Elected February 26, 1980

CANRON INC.

Canron is . . .

a Canadian owned and managed corporation fabricating products and equipment for heavy industry throughout the world.

The corporation currently employs approximately 5,700 people at plants and offices in Australia, Britain, Canada, France, Italy, Japan, Spain, Switzerland, United States and West Germany.

Direction of the Corporation with its diversified product lines and widely dispersed operations is accomplished with a decentralized divisional type of organization.

The corporation's business strategy is to maximize the use of existing manufacturing and marketing expertise and to seek opportunities for profitable growth. Thus along with internal expansion and product development, the corporation will pursue acquisition opportunities.

Executive Office:
1 First Canadian Place
Suite 6300
Toronto, Ontario M5X 1A4

Stock Listings:
Montreal, Toronto and Vancouver Stock Exchanges

Transfer Agent:
Montreal Trust Company, Montreal, Toronto, Halifax, Winnipeg, Regina, Calgary, Vancouver

Registrar:
The Royal Trust Company, Montreal, Toronto, Halifax, Winnipeg, Regina, Calgary, Vancouver

Annual Meeting:
The sixty-fourth annual meeting of shareholders will be held in the Tudor Room, Royal York Hotel, Toronto, Ontario, on Wednesday, April 30, 1980, at 11:00 a.m.

Si vous désirez recevoir ce rapport annuel en français, prière d'en aviser le secrétaire de Canron Inc.
1 First Canadian Place
Suite 6300
Toronto, Ontario M5X 1A4

CANRON INC.